

# **SA***icorp*

A DIVISION OF **SAFA**

## ***Annual Report 2018***



SAicorp continues to provide comprehensive insurance cover to South Australian Government agencies, while maintaining stable premiums. The strong performance of SAicorp's investment portfolio in recent years, as well as good claims management and a

comprehensive reinsurance program enables SAicorp to provide cost effective insurance cover to agencies.

In 2017-18, SAicorp earned a net profit before tax from its core insurance business of \$77.9 million, mostly as a result of a 10.6% return on its insurance investments and lower than expected claims experience. In accordance with SAFA's dividend policy, a dividend of \$12.4 million was paid to the Treasurer.

During the year SAicorp undertook a review of the limits it purchases on its catastrophe reinsurance program. As a result of this review, the limit on the property program was increased to \$2 billion and the terrorism property limit increased to \$500 million. These increases are mostly a reflection of the growing value of the property portfolio rather than any change in the perceived risk.

A number of significant claim matters were resolved during the year, including the successful defence of two long running Court matters.

In relation to building indemnity insurance, the reforms implemented last year, as well as better than expected claims experience and strong investment returns, resulted in SAicorp achieving a net profit before tax of \$2.0 million for the year. This is the first profit for building indemnity insurance since the State Government assumed responsibility for this class of insurance from the private sector in 2013.

In June 2018, SAicorp established a new fund to make payments to successful applicants under the National Redress Scheme for Institutional Child Sexual Abuse. An amount of \$146 million was received from the Victims of Crime Fund to fund payments made under the Scheme over the next ten years.

## Tim Burfield

Director, Insurance  
SAicorp, a Division of SAFA

# SAicorp: who are we?

## **SAicorp is the captive insurer for the Government of South Australia.**

As a division of the South Australian Government Financing Authority (SAFA), SAicorp provides comprehensive insurance protection to South Australian Government Agencies.

We are also responsible for reinsuring risks in the Australian and International insurance markets, as well as providing reinsurance to the private insurance market for South Australian Building Indemnity Insurance risks.

SAicorp has two main divisions, Underwriting and Claims, but also provides Risk Consulting and Advisory Services to South Australian Government Agencies.

## 2017-18 activities

**In 2017-18 SAicorp continued to manage property and civil liability claims from client agencies.**

### **The highlights**



Achieved a **significant profit** for SAicorp's core insurance business on the back of **strong returns** from SAicorp's investment portfolio and **lower** than **expected claims**



**Successful renewal** of the **State's catastrophe reinsurance program** with higher limits purchased for property and terrorism.



Paid a **dividend** to the Treasurer of **\$12.4 million**



A **profit** of **\$2 million** achieved for **building indemnity insurance**.



**Resolved 78 building indemnity insurance claims**

# Insurance Funds

SAicorp operates its business through three self-managed funds as follows.

## SAicorp Insurance Fund 1

The normal commercial insurance operations of SAicorp are transacted through SAicorp Insurance Fund 1 (Fund 1), which is funded by premiums charged to client agencies and investment earnings.

During the year Fund 1 recorded a profit before tax of \$77.9 million, which compares to a profit for the previous year of \$54.8 million. The profit was largely attributable to good investment returns, positive movements in discount rates used to calculate claim liabilities and lower than expected claims experience.

|                                      | 2017-18<br>\$m | 2016-17<br>\$m | 2015-16<br>\$m | 2014-15<br>\$m | 2013-14<br>\$m |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total Assets</b>                  | 590            | 547            | 547            | 491            | 430            |
| <b>Total Liabilities</b>             | 353            | 355            | 386            | 322            | 261            |
| <b>Net Assets</b>                    | 237            | 192            | 161            | 168            | 169            |
| <b>Outstanding Claim Liabilities</b> | 353            | 355            | 349            | 322            | 261            |
| <b>Total Investments</b>             | 577            | 537            | 495            | 475            | 413            |
| <b>Premium Revenue</b>               | 43.7           | 42.5           | 40.5           | 41.5           | 39.8           |
| <b>Reinsurance Expense</b>           | (8.3)          | (7.7)          | (8.4)          | (8.7)          | (9.1)          |
| <b>Net Claims (Expense)/ Gain</b>    | (15.5)         | (40.5)         | (58.9)         | (74.5)         | (30.0)         |
| <b>Underwriting Result</b>           | 20.2           | (5.9)          | (26.2)         | (41.8)         | 1.1            |
| <b>Profit/ (Loss) Before Tax</b>     | 77.9           | 54.8           | (10.0)         | (1.3)          | 55.9           |
| <b>Dividend</b>                      | 12.4           | 7.6            | -              | -              | -              |

SAFA has a policy of maintaining a solvency margin for its insurance assets, calculated as assets over liabilities and expressed as a percentage, within a target range of 125% to 165%. The actual solvency margin as at 30 June 2018 was 167%, which equates to a surplus of assets over liabilities of \$237 million.

Funds not required for SAicorp's short term cash requirements are invested in Funds SA's Growth product, which generated a return for 2017-18 of 10.6%.

In years where SAicorp earns a net profit after tax, SAFA's dividend policy calculates the dividend payable as 50% of average net profit after tax over a rolling five year average. Since profits were achieved in the 2014, 2017 and 2018 financial years, a dividend of \$12.4 million is payable to the Treasurer for the 2017-18 financial year.

SAicorp manages claims against Government agencies where the value of the claim exceeds 75% of an agency's deductible or as otherwise agreed with the agency. A total of 358 claims were open as at 30 June 2018, comprising 89 medical malpractice, 209 general liability, 55 property and five volunteer claims. 164 new claims were received during the year and 194 claims were finalised.

SAicorp also manages below deductible liability claims against the Department of Health and Wellbeing. 232 claims were open as at 30 June 2018, with 103 new claims received and 93 claims finalised during the year.

## Highlights for Fund 1



Fund 1 recorded a **profit** before tax of **\$77.9m**



**Dividend** of **\$12.4m** paid to the Treasurer



**358 claims** were open as at 30 June **2018**



**164 new claims** were received in 2018  
**194 claims** were **finalised**

## SAicorp Insurance Fund 2

SAicorp Insurance Fund 2 (Fund 2) funds liabilities arising from insurable incidents that occurred prior to 1 July 1994 that survive the Limitation of Actions Act, claims under the previous building indemnity reinsurance arrangements with private insurers, SGIC residual claims and claims against the former RESI Corporation.

On an annual basis the liabilities of Fund 2 are revalued and any deficiency arising from the valuation is offset by a receivable from the Treasurer. Conversely any surplus is offset by a payable to the Treasurer. This ensures that Fund 2 records a break even result as at 30 June each year.

SAFA's insurance investments for Fund 2 are invested in Funds SA's Conservative product.

During the year Fund 2 recorded a loss of \$9.8 million, which compares to a loss for the previous year of \$2.1 million. The loss was largely attributable to higher than expected claims experience.

Significant claim matters managed through Fund 2 during the year included a number of asbestos disease related claims against the former RESI Corporation and Children in State Care claims.

A total of 150 claims were open as at 30 June 2018, comprising one property, four medical malpractice and 145 liability claims. 61 new claims were received and 39 claims finalised during the year.

|  | 2017-18<br>\$m | 2016-17<br>\$m | 2015-16<br>\$m | 2014-15<br>\$m | 2013-14<br>\$m |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Total Assets</b>                            | 19.7           | 22.3           | 33             | 50             | 55             |
| <b>Outstanding Claim Liabilities</b>           | 25             | 17.3           | 18.7           | 40.6           | 41.6           |
| <b>Total Investments</b>                       | 17.6           | 19.5           | 27.9           | 44.9           | 46.7           |
| <b>Net Claims (Expense)/ Gain</b>              | (11.3)         | (4.1)          | 1.7            | (7.5)          | (0.4)          |
| <b>Receivable from/ (Payable) to Treasurer</b> | 9.8            | 2.1            | (4.5)          | 3.5            | (5.0)          |
| <b>Profit/ (Loss) Before Tax</b>               | -              | -              | -              | -              | -              |





**RISK**

**INSURANCE**

## Highlights for Fund 3



**Profit** before  
tax of **\$2m**



**12,795**  
**certificates**  
were issued  
**\$2.9b** of  
**building works**



**\$10.4m** in  
premium **revenue**  
**collected**



**78 new**  
**claims**  
were received  
**\$3.9m**  
**claim**  
**payments** to  
SA home owners



Since 2013  
**\$45.5m**  
**premium**  
**revenue**  
**collected**  
against claim  
payments  
**totalling**  
**\$11.3m**

## SAicorp Insurance Fund 3

SAicorp Insurance Fund 3 (Fund 3) was established on 1 July 2013 to fund the cost of the new building indemnity insurance (BII) arrangements following the withdrawal of private insurance from the market.

BII covers homeowners from loss or damage resulting from non completion of building work, loss of deposit or breach of statutory warranty if the homeowner cannot recover compensation from the builder because of their death, disappearance or insolvency.

Prior to 2013, in order to facilitate the availability and affordability of building indemnity insurance to homeowners, the Treasurer provided catastrophe reinsurance protection to three private insurers who have all since withdrawn from the BII market.

Since the withdrawal of insurers from the BII market in 2013, SAicorp has been underwriting BII through 100% quota share agreements with QBE and Calliden (now known as GLA).

The quota share agreement with GLA expired without renewal on 30 June 2017, while the agreement with QBE was extended for up to a further five years.

Fund 3 receives premium income from QBE (and previously GLA) and pays commissions, claims and other costs payable under the new reinsurance arrangements. Fund 3 is supported by an indemnity from the Treasurer and has been established to quarantine the costs arising from BII from SAicorp's normal insurance activities.

On an annual basis the liabilities of Fund 3 are revalued and any deficiency arising from the valuation is offset by a receivable from the Treasurer. Conversely any surplus is offset by a payable to the Treasurer. This ensures that Fund 3 records a break even result as at 30 June each year.

SAFA's insurance investments for Fund 3 are invested in Funds SA's Conservative product.

During the year Fund 3 recorded a profit of \$2.0 million, which compares to a loss for the previous year of \$3.7 million.



|  | 2017-18<br>\$m | 2016-17<br>\$m | 2015-16<br>\$m | 2014-15<br>\$m | 2013-14<br>\$m |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Total Assets</b>                                | 37             | 32             | 23             | 15             | 9              |
| <b>Total Liabilities</b>                           | 37             | 32             | 23             | 15             | 9              |
| <b>Outstanding Claim Liabilities</b>               | 12.6           | 10.7           | 7.4            | 3.5            | 0.8            |
| <b>Total Investments</b>                           | 24.1           | 21.2           | 16.0           | 9.1            | 2.5            |
| <b>Premium Written</b>                             | 10.4           | 10.6           | 8.7            | 7.7            | 8.2            |
| <b>Certificates Written</b>                        | 12,795         | 13,432         | 13,162         | 12,041         | 13,424         |
| <b>Net Claims (Expense)/ Gain</b>                  | (6.3)          | (7.4)          | (5.8)          | (4.2)          | (1.2)          |
| <b>Receivable from/<br/>(Payable) to Treasurer</b> | (2.0)          | 3.7            | 2.3            | 3.8            | 1.0            |
| <b>Profit/ (Loss) Before Tax</b>                   | -              | -              | -              | -              | -              |

In 2017-18, 12,795 BII certificates were issued and \$10.4 million in premium revenue collected covering \$2.9 billion of building works. 78 new claims were received and \$3.9 million in claim payments were made to South Australian home owners during the year.

Since SAicorp commenced writing BII in 2013 it has written a total of \$45.5 million in premium covering \$15.0 billion of building works against 303 claims totaling \$11.3 million. Note that homeowners have up to five years after completion of a building project to make a claim under the BII policy, which means there is often a long period of time between receipt of the premium and payment of claims.

# Reinsurance Arrangements

## Highlights for reinsurance



**Insured  
\$73b**  
of government  
assets



**Increased  
property  
limit \$2b**



**Increased  
terrorism  
property limit  
\$500m**



**Program  
renewed  
with 15.7%  
increase  
in premium**

Although the South Australian Government is fundamentally a self-insurer of most of its own risks, the State's finances are protected against the financial consequences of a catastrophic event, a very large property loss or civil liability claim, or a series of large losses or claims.

This protection is obtained through the placement of a commercial catastrophe reinsurance program in the Australian and international insurance markets. The program was successfully renewed as at 31 October 2017 with the following key changes to the program:

- an increase in the property limit from \$1 billion to \$2 billion
- an increase in the terrorism property limit from \$250 million to \$500 million
- a decrease in the directors and officers liability limit from \$75 million to \$50 million.

In relation to the property program, during the year SAicorp insured \$73.0 billion of government assets, an increase of 5.8% on the previous year. The increase was largely attributable to the inclusion of the Adelaide Desalination Plant and increased declared values across the portfolio. The premium payable to property reinsurers for 2017-18 increased by 32.6% as a result of the increased declared values and higher limit (from \$1 billion to \$2 billion).

In relation to the terrorism property policy, the increased declared values and higher limit (from \$250 million to \$500 million) resulted in a 57.6% premium increase being payable.

All of the liability classes (general liability, directors and officers, professional indemnity and medical malpractice) as well as the network security and privacy policy were renewed with no change in premiums from the previous year.

Overall, the catastrophe reinsurance program was renewed with a total increase in premiums of 15.7%, noting that most of the increase was attributable to increased declared values and policy limits for property and terrorism property.

Details on the State's catastrophe reinsurance program for 2017-18 are on page 11.

## SAicorp Reinsurance Program 2017-18

### Industrial Special Risks (Property and Business Interruption)

|   |       |
|---|-------|
| Level of cover  | \$2b  |
| Aggregate annual deductible for losses in excess of \$1m each and every event | \$15m |

### Public and Products Liability

|  |        |
|--|--------|
| Level of cover   | \$750m |
| Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event | \$20m  |

### Professional Indemnity

|  |        |
|--|--------|
| Level of cover   | \$300m |
| Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event | \$20m  |

### Directors and Officers Liability

|  |       |
|--|-------|
| Level of cover   | \$50m |
| Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event | \$20m |

### Medical Malpractice

|                                 |        |
|---------------------------------|--------|
| Level of cover                  | \$100m |
| Each and every event deductible | \$15m  |

### Aviation Liability

|                                 |         |
|---------------------------------|---------|
| Level of cover                  | \$500m  |
| Each and every event deductible | \$5,000 |

### Terrorism Property

|                                 |        |
|---------------------------------|--------|
| Level of cover                  | \$500m |
| Each and every event deductible | \$25m  |

### Network Security and Privacy Liability

|                                 |        |
|---------------------------------|--------|
| Level of cover                  | \$30m  |
| Each and every event deductible | \$0.5m |

m = million

b = billion

## Local Government Association Treasurer's indemnity

The catastrophe reinsurance program also covers civil liability risks assumed by the government under the indemnity provided by the Treasurer to the Local Government Association (LGA). The LGA is noted on the government's catastrophe liability reinsurance program.

The Treasurer's indemnity with the LGA has been in place since 1989 and seeks to ensure stability to Local Government in the event of a significant liability claim against a member Council. Under the Treasurer's indemnity the LGA is required to purchase \$500 million of general liability reinsurance before the State's liability reinsurance comes into effect.

### ***Further information***

[www.safa.sa.gov.au](http://www.safa.sa.gov.au)

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